

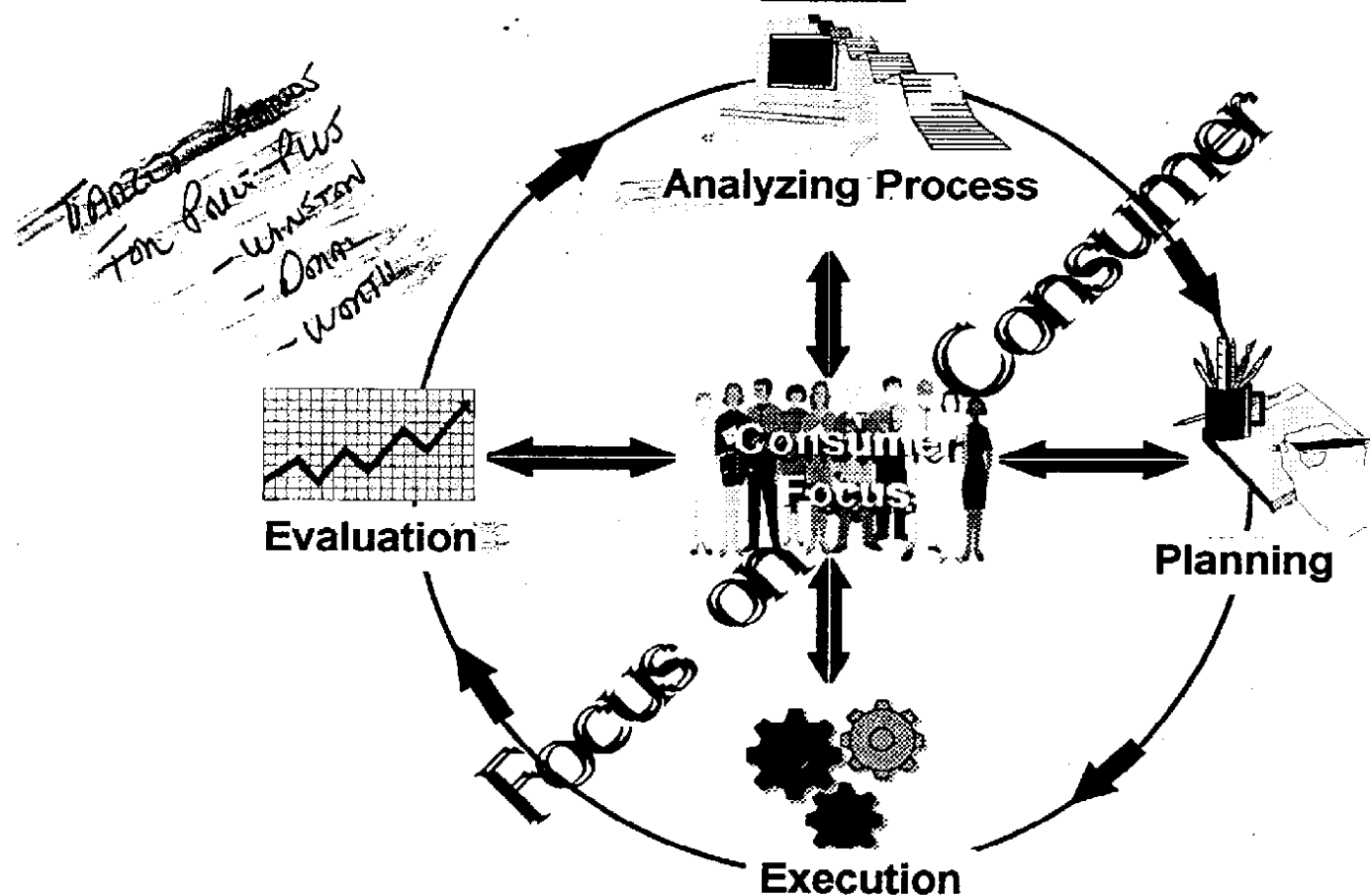
Wakefern Food Corporation

Category And SKU Management
Cigarette Category
1998

Cigarette Category Management

Discovery Process Is First Step

Then:



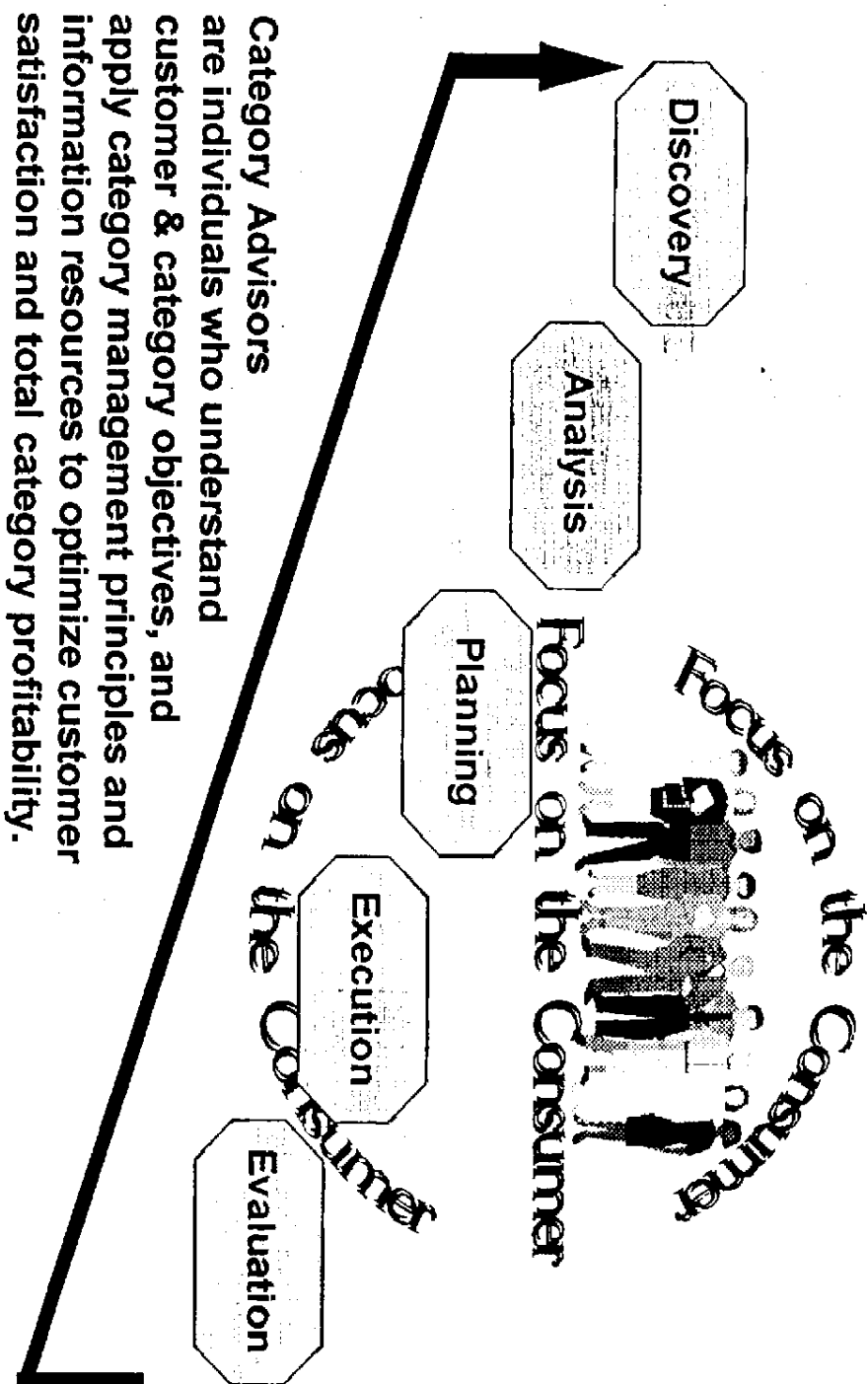
RJR Cigarette Category Definition

- **Simply stated - Cigarettes**
- **RJR further defines the category based on consumer perceptions of product characteristics which directly influence their purchase decisions.**

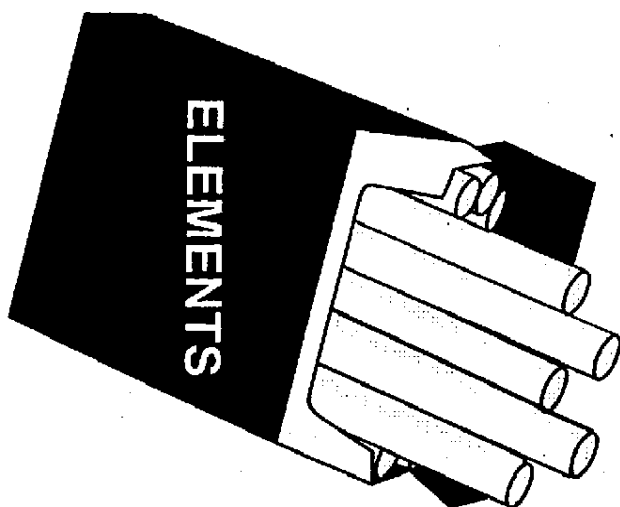
RJR Category Management Definition

Category Management is a consumer focused, information based process of establishing strategies and making decisions on product mix, distribution, merchandising and service, in order to maximize consumer satisfaction and category profitability.

RJR - Your Cigarette Category Advisor



Key Elements Of Category Performance



SKU / Inventory Management

Space Management

Profit-Effective Volume Building

Customer Service

External Influences

Elements Of Cigarette Category Management

What It Means To :

Manufacturer

Retailer

Consumer

Product Management

- SKU Management
- Inventory Control

Brands
Production

Assortment
ROI

Selection
Availability

Space Management

- Fixturing
- Space Allocation
- RDA \$'s

P.O.S.

Merchandising

Accessibility

Profit Effective Volume Building

- Pricing Strategies
- Promotions
- Display and Advertising
- Trade Incentives / Programs

Equity

Sales

Value

Customer Service

- Distribution
- Product Freshness
- Promotion Support
- Consumer Focus

Category Expertise

Advantage

Smoker Friendly

External Influences

- Legislative Issues
- Excise Tax Impact
- Social Stigma Issues

Earnings

Earnings

Freedom

RJR Capabilities

RJR Can Act As Your Category Advisor, Utilizing Our Field Sales Expertise To Help Build & Support Your Cigarette Category Strategy

- **Data Processing**
 - **Marketplace Analysis**
 - **Space Management**
 - **Profitability Analysis**
 - **Marketing Research**
 - **SKU Management**
- **Trade Programs**
 - **Merchandising Expertise**
 - **Promotion Expertise**
 - **Sports Marketing Expertise**
 - **Direct Marketing Expertise**
 - **Private Label Expertise**

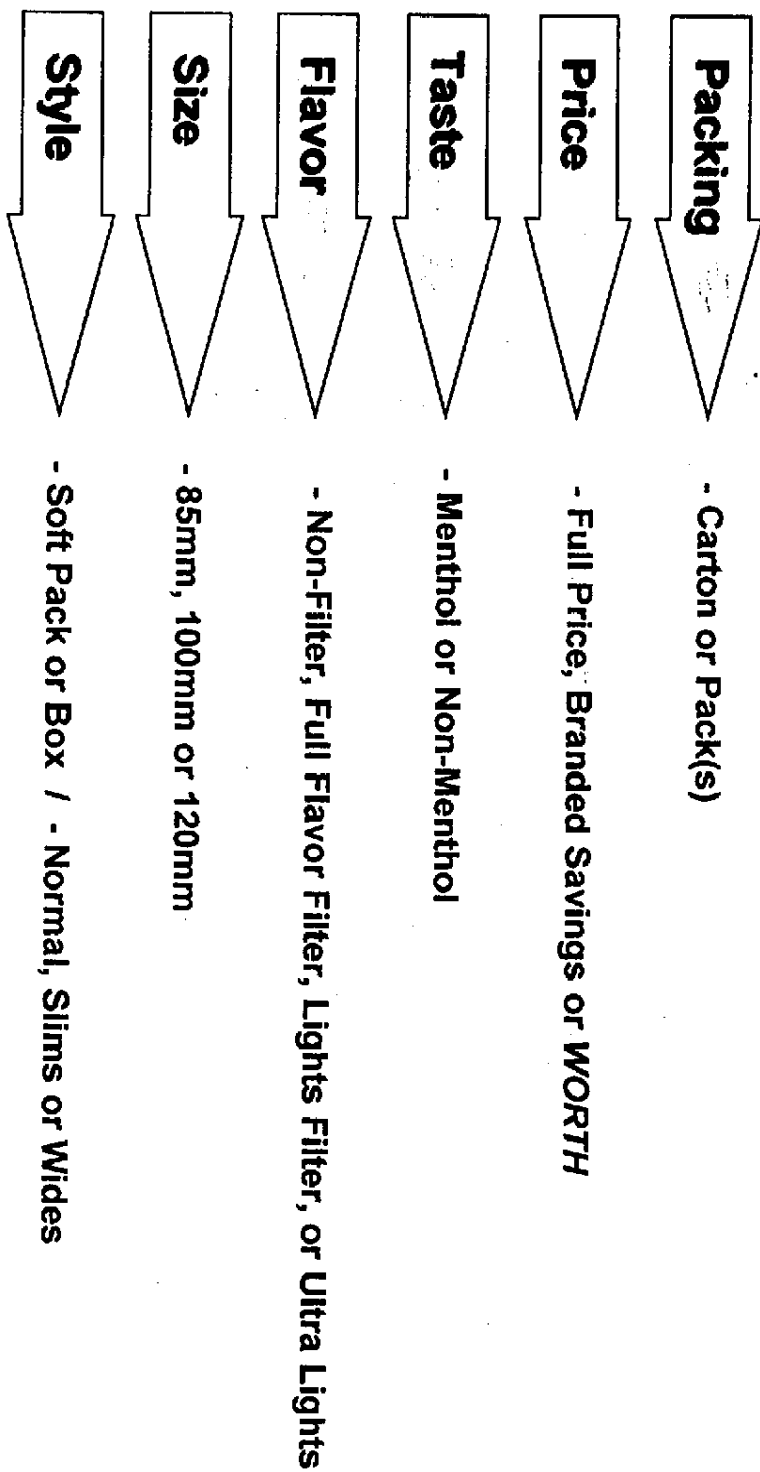


Profitability Through Category Management



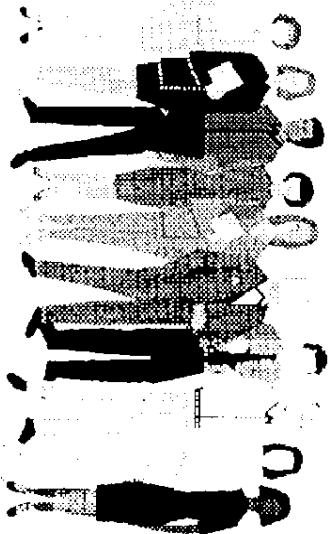
Consumer Decision Tree

Is Based On Critical Product Characteristics

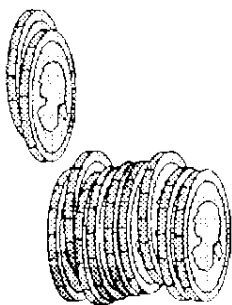


WHAT IS SKU MANAGEMENT?

- Brand Style Selection based on Consumer Satisfaction.
- Analysis of Store / Chain Sales Data compared to the Trading Area.
- Sales and Profits Impact.
- Inventory Requirements.



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ADDRESSING SKU MANAGEMENT

- How are Retailers & Wholesalers addressing it?
 - Reviewing / Dropping SKU's (Brand Styles)



ADDRESSING SKU MANAGEMENT

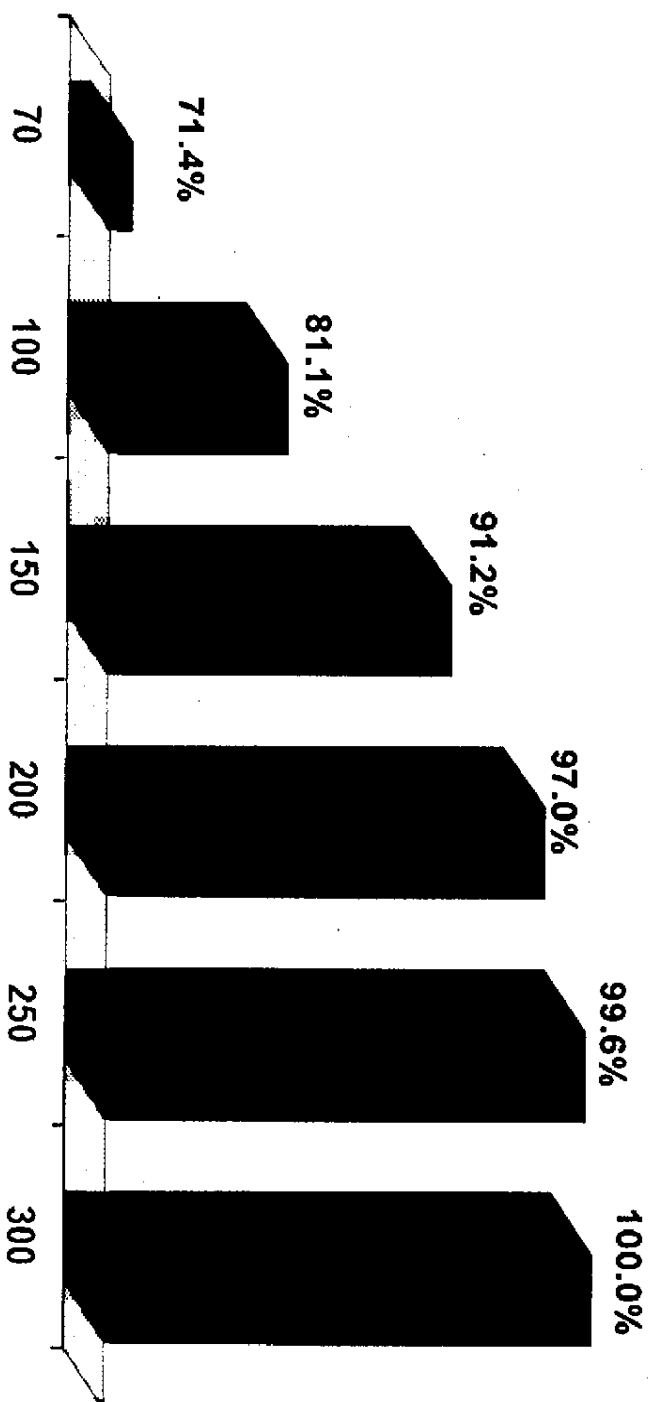
- How are Manufacturers addressing it?
 - Philip Morris "Drawing a line"
 - 60 - 70% Share Of Market (Drop all brands below line)
 - RJR (CSL) Consumer Satisfaction Level Analysis
 - Analysis of store and marketplace sales data by SKU
 - Analysis of impact on Cigarette Sales & Profits
 - Analysis of impact on Other Categories Sales & Profits

SHOP RITE.....WHAT'S AT STAKE?

- A Delicate Balance of Reducing Inventory Carrying Costs Vs Lost Sales / Profits ("Foot Traffic")
- Facts:
 - 67% of Consumers Switch Stores If Their Usual Brand of Cigarettes Is Not Available.
 - 76% of Consumers Switch Stores If Their Usual Store Stops Promoting Their Usual Brand.
 - 64% of Smoking Consumers Purchase Additional Items When Buying Cigarettes.
 - Additional \$ Spent By Cigarette Consumers
 - Pack Buyers \$2.38
 - Carton Buyers \$4.00
- Will Higher Cigarette Prices Change This? YES, Increased Brand Loyalty.

SHOP RITE Trading Area Consumer Satisfaction Level

CSL



Number Of Brands Required To Reach % CSL

SHOP RITE CUSTOMER SATISFACTION LEVEL IMPACT **WHAT TOTAL COST IS ASSOCIATED WITH LOSING A CIGARETTE CUSTOMER?**

- Choose a Level and see the Impact on:
 - Cigarette Volume
 - Customer Count
 - Total Inside Store Sales

CUSTOMER SATISFACTION LEVEL IMPACT				
Total Industry Cigarette Volume Including Promoted Volume				
Wakefern Food Corp.				
NUMBER OF STORES	180			
AVG. CARTONS / WEEK / STORE	350			
C. S. L. IMPACT AT	95.00%			
<p>Information below demonstrates the business impact by outlet type, Pack Outlets or Carton Outlets. If your chain is a combination of the two, look at Per Store and multiply the totals times the number of stores you have in each type to get actual totals.</p>				
	PACK OUTLETS		CARTON OUTLETS	
	Per Store	Chain	Per Store	Chain
INCREMENTAL VOLUME IMPACT (cartons/week)	-17.5	-3,150.0	-17.5	-3,150.0
INCREMENTAL CUSTOMERS IMPACT / WEEK	-117	-21,000	-18	-3,150
INCREMENTAL CUSTOMERS \$ SPENT / VISIT (excludes gas)	\$5.04	\$5.04	\$20.15	\$20.15
WEEKLY PROJECTED INCREMENTAL SALES (excludes gas)	-\$588	-\$105,840	-\$353	-\$63,473
ANNUAL PROJECTED INCREMENTAL SALES (excludes gas)	-\$30,576	-\$5,503,680	-\$18,337	-\$3,300,570

CATEGORY MANAGEMENT

■ Discussion Issues

- Is the Retail Store Advantaged or Disadvantaged VS Their Trading Area?
 - What is the Role of SKU Availability in Building the Cigarette Category?
 - What is the Role of SKU Availability in Building Other Categories?
 - Indiscriminately Dropping Brands Can Cost You MAJOR Profit \$!!
-
- RJR Wants To Be Your "Partner" Not Your "Master".

MADEEN

- RSR EXCL
- 8M EXCL
- 60 EXISTENCE

MADEEN
That were done
CHT MZMT